

96-2699
A+B-OTR AUDIT

DDA 76-3746

28 July 1976

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MEMORANDUM FOR: DDA Office Directors
FROM : [REDACTED]
Executive Officer, DDA
SUBJECT : Annual Plan for Directorate of
Administration Audits
REFERENCE : Memorandum for DDA from IG, dated
27 July 1976, Same Subject

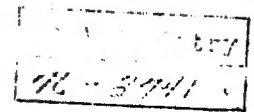
1. The attached is forwarded for your information. It is based on an exchange of correspondence and conversation between and among Mr. Blake, the Inspector General and Chief, Audit Staff concerning expanded audits and their relationship to inspections.

2. The ground rules described should be of interest to you.

[REDACTED]
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Attachment:
Reference

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27 JUL
1976

MEMORANDUM FOR: Deputy Director for Administration

FROM : John H. Waller
Inspector General

SUBJECT : Annual Plan for Directorate of Administration Audits;
Expanded Audits and their Relationship to Inspections

REFERENCES : (a) Chief, Audit Staff Memorandum dated 14 July 1976
(b) Your Memorandum (DDA 76-3259) of 30 June 1976
(c) Annual Audit Plan dated 28 June 1976

1. Reference (a) deferred responding to the questions raised by you in Reference (b) until the Chief, Audit Staff, and I were able to review the problems you brought to our attention, and to issue a paper which addresses itself to clarifying and elaborating on [REDACTED] and which notes the principles we believe should obtain in the conduct of expanded audits. I am attaching for your information a copy of the paper which resulted from these deliberations and which I believe you will find to be useful. In it we have made what I believe are some innovative suggestions consistent with the letter and spirit of [REDACTED] and which I hope will result in more substantive and meaningful audits.

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2. In answer to your specific question about the extension of the scope of audit beyond financial compliance in the audit of the Office of Personnel, I would like to note that this is being undertaken in accordance with the provisions of paragraph 1b(2)(b) of [REDACTED]. Before commencing this audit, the auditors will thoroughly review the recent Inspection Staff report on the Office of Personnel. Matters covered during the Inspection will not be touched on by the auditors, thus avoiding needless duplication of effort. Also, in the spirit of [REDACTED] and in order to make the audit more meaningful, I am assigning to that audit one of the Inspectors who participated in the inspection of the Office of Personnel. You are also invited, in accordance with [REDACTED] (2)(c) and the attached paper, to designate an officer to assist the auditors who will be conducting this audit.

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[REDACTED]
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John H. Waller

Attachments:
As Stated

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The Audit Function and the Scope of Audits in CIA;
Relationship to Inspections

25X1A 1. Some knowledge of the legal and administrative basis of the Federal Government's standards and procedures for internal auditing in Federal agencies is important to an understanding of the audit function and the scope of audit in CIA and CIA's regulation on the subject. CIA regulation [REDACTED] (see attached) observes these standards, while at the same time taking into account the Agency's unique circumstances in terms of its operations and use of confidential funds.

2. The Budget and Accounting Procedures Act of 1950 requires the head of each executive agency to conduct internal audits in accordance with standards established by the General Accounting Office, the auditing arm of Congress. These standards provided for expanded audits. Until recently, however, the Agency generally limited the Audit Staff to the performance of financial/compliance audits. The Agency's philosophy was to emphasize strong financial audits because of its unique responsibility for the expenditure of confidential funds. Agency management believed that disclosure of financial irregularities could jeopardize the continuance of confidential funds authority.

3. Since 1950, GAO has promulgated audit standards which extend beyond the traditional financial/compliance audit. Recently GAO and OMB, the management arm of the Executive Branch, have stressed the need for increasing the scope of audit coverage in Federal agencies, including CIA. Their guidelines are contained in GAO's Standards for Audit of Governmental Organizations, Programs, Activities and Functions and OMB's Federal Management Circular 73-2. CIA regulation [REDACTED] which is consistent with the provisions of these issuances, specifies the standards of expanded audits as conducted in CIA. These standards provide for a scope of audit that includes not only financial compliance auditing but also auditing for "economy and efficiency," and "achievement of desired results"; these latter are known as expanded audits. The concept of accountability is woven into the basic premises supporting the standards.

25X1A 4. These various authoritative issuances have been instrumental in the writing of [REDACTED] and will become more important if there is a resumption in any form of GAO external audits of CIA. GAO relies on the work of the internal auditors and the other evaluation/assessment elements in a Federal agency and to the extent that GAO can accept this work, it limits its own reviews.

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5. The work related to financial/compliance auditing is well known and includes an examination of financial transactions, accounts, and reports including an evaluation of compliance with applicable laws and regulations. This is the first element of the three elements which constitute a full scope audit.

6. In making a determination as to whether Agency resources are managed economically and efficiently (the second element of a full scope audit) the auditor, should be alert to such examples of uneconomical practices or inefficiencies as:

- (a) Procedures which are ineffective or more costly than justifiable.
- (b) Redundancy of effort by employees or between organizational units
- (c) Performance of work which serves little or no useful purpose
- (d) Inefficient or uneconomical use of equipment; faulty buying practices
- (e) Overstaffing in relation to work to be done
- (f) Wasteful use of resources

7. The third element of a full scope audit consists of a review of a program or activity to determine whether the desired results and benefits are being achieved and whether the program or activity is meeting established objectives. The auditor, should consider:

- (a) The relevance and validity of the criteria used by the audited entity to judge effectiveness in achieving program results
- (b) The appropriateness of the methods followed by the entity to evaluate effectiveness in achieving program results
- (c) The accuracy of the data accumulated
- (d) The reliability of the results obtained

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In other words, the auditor will not necessarily accumulate data himself to determine whether programs are meeting established objectives, but will normally only review and test those procedures and methods employed by line management to evaluate programs and activities. This could also include evaluation and review of MBO and other Agency management systems. It should be noted that the audit standards promulgated and adopted by OMB and GAO permit the auditor to accept the work of other assessment and evaluation groups.

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8. Under [REDACTED] the Audit Staff is required to coordinate the selection of subject matter for an expanded audit with the Deputy Director concerned. Since only the DCI can exempt a program or component from audit (and none are presently exempt), a Deputy Director who wishes such an exemption would have to seek DCI approval if the Deputy Director objected to an audit. The Audit Staff's limited resources and commitment to financial/compliance audits preclude more than a few expanded audits at this time. Resources are limited particularly in terms of the number of auditors believed to have the necessary experience and background to conduct expanded audits.

9. During a routine financial compliance audit, the auditors may uncover uneconomical practices and inefficiencies, or they may also discern that desired results are not being achieved. In these cases, the auditors would not be fulfilling their responsibilities if they did not explore these matters further and comment on their findings.

10. There is an area of potential overlap between the Audit Staff and the Inspection Staff. The Inspector General has the responsibility to conduct periodic inspections of all CIA offices to determine the effectiveness of their programs in implementing policy objectives. This authority is broadly encompassing. Audit Staff's authority to determine whether programs are meeting established objectives and desired results are being achieved is oriented primarily toward testing and reviewing procedures and methods used by line managers to evaluate use of their resources. There is the possibility of some overlap here, but since the Inspector General monitors the work of both the Inspection and Audit Staffs, he views as one of his major tasks the limitation of unnecessary duplication between expanded audits and inspections.

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11. Serious efforts will be made to avoid duplication of audit and inspection effort, and to make more effective use of the limited number of qualified personnel available to conduct these kinds of inspections and audits. [REDACTED] states under 1b(2)(c) that the Chief, Audit Staff will:

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When an audit is planned which encompasses elements of (extended audits) augment the audit team where necessary with an individual or individuals with appropriate experience in the technical field or operational area to be reviewed. These individuals may be drawn from either the Inspection Staff, the directorate involved, retirees, or outside consultants, and should be independent of the program under review. Individuals selected for augmentation of audit teams will be appropriately cleared with the Deputy Director concerned.

This technique has seldom been utilized in the past when an expanded audit was undertaken. If a Deputy Director believes that an expanded audit would benefit from the assistance of technical expert(s), he should so recommend to the Chief, Audit Staff. The technical expert will act as an adviser to the auditors. Accordingly, his views and opinions of course cannot be imposed on the auditors and the auditors have the right to deliberate independently.

12. In addition, the Deputy Director concerned may appoint a person from his staff--not from the component being audited/inspected--to assist the audit team as necessary, and whose relationship will be subject to the same guidelines as the technical expert.

13. Other possibilities include that of having the Inspection Staff conduct surveys or inspections in conjunction with the auditors, by assigning an inspector to the more important audits. In these cases, the audit teams and the inspector would work together in a Headquarters component, or at a field installation or on a program review/audit. Alternatively, auditors may be assigned to inspection teams, especially where financial considerations are important. These combinations of auditors and inspectors should be able to respond to the somewhat overlapping requirements of both audits and inspections. Over the coming months it is expected that these and other proposals will be tested out, refined, and improved.

14 The above is intended to be a discussion of the auditors role and the relationship between Audit and Inspection Staffs but in no way modifies or alters existing relevant regulations.

Attachment:

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